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THE UNITED STATES AND IRAN:
PROSPECTS FOR NORMALIZATION

BY

WILLIAM M. HARRIS

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USAWC STRATEGY RESEARCH PROJECT

**THE UNITED STATES AND IRAN:
PROSPECTS FOR NORMALIZATION**

by

William M. Harris
US Army Civilian

Dr. Sami G. Hajjar
Project Advisor

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U.S. Army War College
CARLISLE BARRACKS, PENNSYLVANIA 17013

ABSTRACT

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For the United States, Iran has been transformed from a major strategic asset into a significant strategic threat. The US has broken diplomatic relations with Iran and attempted, with mixed results, to punish it economically, isolate it politically, and deter it militarily. This confrontational approach is no longer in the US national interest and recent changes in Iran offer an opportunity to improve the US-Iranian relationship. Progress will depend on mutual perceptions of shared interests, the outcome of Iran's internal political struggle, and the ability of the US to respond rationally to positive signs from Iran. Even then, normalization will not come quickly or easily. It will require steady, long-term US effort and will be complicated by two decades of hostility and by domestic political dynamics in both countries that hinder rational policy debate.

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PREFACE

I want to express my gratitude to my wife Teresa, my son Sean and my daughter Jillian for the support they have given me during this project and for their patience and understanding.

THE UNITED STATES AND IRAN: PROSPECTS FOR NORMALIZATION

For the United States, Iran has been transformed in a relatively short time from a major strategic asset in the Middle East to a significant strategic threat to US interests in the region. In response to the 1979 Islamic Revolution in Iran and subsequent Iranian actions and policies, the US has imposed a unilateral program of economic sanctions and embargoes on trade and technology transfers, attempted to politically isolate Iran and enlist other nations in its sanction and embargo efforts, and stepped up its military commitment to the Persian Gulf with an increased force presence and closer ties with key Gulf allies. The success of these actions has been mixed -- they have not brought about the end of Iran's Islamic regime and have not compelled it to halt its objectionable policies, but they have forced Iran to pay an economic and political price for disregarding international norms of behavior and have served as a deterrent to more aggressive Iranian action.

The recent signs of change in Iran are positive from the US perspective and this country has responded to these changes, to some extent, with a more conciliatory posture. Further improvement in US-Iranian relations will depend in large part on the outcome of Iran's on-going political struggle between hard-

line and moderate factions. It will also depend on the ability of the US to conduct a rational policy debate and to respond in a positive and appropriate fashion to further signs of change in Iranian policy and behavior.

The prospects for further improvement in US-Iranian relations are further complicated on both sides by two decades of hostility and perceptions colored by mutual "demonization" and by domestic political dynamics that complicate efforts to conduct rational policy debate.

RECENT HISTORY OF US-IRANIAN RELATIONS

During World War II, Iran declared it's neutrality, but was sympathetic to the Germans and had several thousand German advisors within its borders. Britain and the Soviet Union demanded the ouster of these advisors and when Iran's leader, Reza Shah Pahlavi, failed to comply, they invaded Iran with 60,000 troops on 25 August 1941. They quickly defeated the Iranian army and forced the Shah to abdicate, with his son, Mohammed Reza Pahlavi, ascending to the throne. For the rest of the war, Soviet and British troops occupied Iran in the north and south, respectively. They were joined in late 1941 by American troops, who supported, and later took over responsibility for, the transfer of lend-lease material through the "Persian corridor" to the Soviet Union.¹

After the war, instead of withdrawing its forces from Iran, the Soviet Union backed the rebellious Tudeh party (a communist party) and the Tudeh government in the Azerbaijan province, demanding autonomy for that province and oil concessions from the government of Iran. In December 1945, a separate Azerbaijani state was declared with the backing of Soviet troops, but these troops were eventually withdrawn as a result of Western pressure and UN efforts. A year after being formed, the new Azerbaijani state collapsed and Iran re-established control over the province.²

Tension over control of the Anglo-Iranian Oil Company, jointly owned by Britain and Iran, increased due to perceived inequities in the sharing of revenues (Britain generated more revenues in taxes on company profits than Iran received in royalties). Two Iranian Prime Ministers were forced out due to their failure to meet public demands for nationalization of the company. Violent demonstrations supported the demands of the Iranian parliament that the Shah appoint Mohammed Mossadegh, an advocate of nationalization, as premier. This tension came to a head in April 1951, when Mossadegh became Prime Minister and implemented the takeover of the Anglo-Iranian Oil Company. European shippers responded with an oil embargo that crippled the Iranian economy. In August 1953, Mossadegh was overthrown

with the help of the US and Britain and the Shah was restored to full power.

The Shah chose to closely ally himself with the West and joined Iraq, Turkey, Pakistan and Britain in forming the Baghdad Pact, a mutual defense pact which was later renamed the Central Treaty Organization (CENTO) after Iraq withdrew in 1959. While not a member of the Baghdad Pact, the US advised pact members that the Eisenhower Doctrine, which promised to counter communist subversion in the Middle East, committed the US to their defense as effectively as actual pact membership. In March 1959, the US and Iran established a bilateral pact to promote regional security and defend CENTO members.³

In 1962, President Kennedy, believing an Iranian government with greater domestic legitimacy would better serve US interests, advised the Shah that further US aid would focus on economic development instead of military capability. Despite his concerns, the Shah launched a series of economic and social reforms, termed the White Revolution, in January 1963. These reforms produced substantial opposition from religious leaders, that the Shah was able to neutralize. In 1964, President Johnson agreed to provide foreign military sales credits, which continued though 1969.

When Britain decided in 1968 to end its military role east of the Suez, Iran and allied Arab states increased their

military forces. The US declined to step in to fill the void and President Nixon chose instead to rely on Saudi Arabia and (especially) Iran, in a "twin-pillars" policy. Throughout the 1970s, high oil prices produced huge revenues, which Iran used to purchase a large quantity of state-of-the-art military equipment from the US. Because of its location, natural resources, large population and growing military strength, Iran became a major strategic asset in promoting US interests, such as protecting the free flow of oil to the West and Japan and contributing to the containment of Soviet expansion in the region.⁴

THE ISLAMIC REVOLUTION AND US RESPONSE

This strategic equation was dramatically altered by the Islamic Revolution. When the Shah was overthrown in January, 1979 and Ayatollah Khomeini assumed power, the US embargoed all of the military equipment that the Shah had ordered and impounded the funds that he had provided. After radicals captured the US Embassy in Teheran in November 1979 and took US diplomatic personnel hostage, President Carter issued an Executive Order declaring a national emergency and subsequently broke diplomatic relations with Iran. The hostage crisis and the Soviet invasion of Afghanistan gave impetus to the announcement of the Carter Doctrine, which stated that the US

was ready to use force if the Soviet Union or Iran interfered with the flow of oil from the Persian Gulf. A Rapid Deployment Joint Task Force was established for the possibility of fighting the Soviet Union in the Zagros Mountains of Iran. The hostage crisis was finally resolved in January 1981 and the US-Iran Claims Tribunal was established in The Hague to adjudicate outstanding claims.⁵

A long series of actions has toughened the US response to the Islamic Republic in Iran. Iran was placed on the State Department list of countries that sponsor terrorism. The Arms Export Control Act prohibited foreign military sales to Iran and required US government consent for the transfer of munitions items to Iran. The Export Administration Act restricted the sale of certain other goods and technologies to Iran. US representatives to international financial institutions, such as the World Bank and the International Monetary Fund, were required to oppose financial assistance to Iran. The Foreign Assistance Act prohibited aid to countries that provide support for international terrorism. During the Iran-Iraq War, the Reagan administration instituted a tough international arms embargo, called Operation Staunch, against Iran and, in the wake of the Iran-Contra scandal, banned Iranian imports. The Iran-Iraq Arms Non-Proliferation Act barred foreign military sales, commercial arms sales, and the transfer of restricted goods and

technology and nuclear materials and technology. It also instituted sanctions against foreign governments and against US or foreign individuals and firms that help Iran acquire weapons of mass destruction (WMD) or the missile systems to deliver them. The US has tried, with limited success, to convince international structures, such as the G-7 nations and the European Community, to join in the effort to prevent Iran from acquiring various technologies.⁶ In addition, the US has indicated that it is "strongly opposed to oil and gas pipelines that transit Iran and, as a policy matter, will continue to encourage alternative routes for the transport of Caspian energy resources."⁷ In November 1997, for example, Secretary of Energy Federico Pena, commenting on the Azerbaijani oil pipeline, "asserted that Azerbaijani oil could be exported in any direction -- as long as it was through a non-Russian or non-Iranian pipeline that went to Turkey's Mediterranean port of Ceyhan."⁸

The intensity of US feeling about Iran was demonstrated in 1995, when the Conoco Oil Company announced a \$1 billion gas-development deal with Iran. Though the deal was legal at the time under US law, and may have been intended by Iran as a friendly gesture, it triggered a storm of protest and a political competition between the Clinton administration and its Republican critics in Congress to "do something." Bowing to

public pressure, Conoco's parent corporation, Dupont, renounced the deal. With the 1996 election in mind, the administration issued two Executive Orders on Iran in an unsuccessful attempt to head off more drastic legislation being drafted by the Republican opposition in Congress. These two Executive Orders made it illegal for US oil companies to operate in Iran and establishing penalties for doing business with it. The Republican-sponsored legislation went further, banning all trade with Iran and imposing sanctions on any foreign corporation that invested more than \$40 million in the Iranian oil and gas sector. Though widely regarded as extreme, the bill passed the Senate on a voice vote, passed the House by a vote of 415 to 0 and was signed into law (reluctantly) by President Clinton as the Iran-Libya Sanctions Act (ILSA) of 1996. In subsequent years, Republicans accused the administration for failing to enforce the extraterritorial provisions of the ILSA and threatened to propose even stronger legislation.⁹

The Conoco flap and the genesis of the ILSA highlight the politically contentious nature of US policy toward Iran. In September 1997, oil companies from France, Russia and Malaysia announced a \$2 billion deal to develop Iran's South Pars gas field. Secretary of State Madeline Albright, exercising the ILSA's waiver authority, determined that it was not in the national interest to impose sanctions on those firms, as

sanctions would not stop the project from proceeding but would hamper cooperation with those countries on a range of other issues and would result in retaliation against US firms. Albright indicated that "we would expect that a review of our national interests in future ILSA cases involving Iran similar to South Pars, involving exploration and production of Iranian oil and gas, would result in like decisions with regard to waivers for EU companies"¹⁰ Given the fundamental purpose of the ILSA, her statement was a clear reflection of the domestic political conflict over US Iranian policy. This conflict could also be seen in the proposed Iran Missile Proliferation Sanctions Act of 1998 (H.R. 2709), which would have imposed sanctions on foreign individuals and companies for transferring items or assistance that contributed to Iran's missile program. President Clinton returned the legislation without approval, indicating agreement with its goals (combating terrorism and the transfer of missile technology) but arguing that its approach "indiscriminate, inflexible, and prejudicial to these efforts, and would, in fact, undermine the national security objectives of the United States."¹¹

US AND IRANIAN PERSPECTIVES

In a relatively short time, the US had come to view Iran, not as a strategic asset, but as a threat because its actions

and policies endangered vital US interests and its behavior violated international norms. This US perception of an Iranian threat to stability in the Persian Gulf and Western access to its critical oil and gas resources prompted the US to increase its military presence in the region and to forge close military ties with key Gulf allies. The perception of an Iranian threat was not limited to the US. Shortly after the Islamic Revolution, and six months after the Iran-Iraq war, the Gulf monarchies formed the Gulf Cooperation Council (GCC) in part as a security alliance against Iran.¹²

On an official level, the US leadership has expressed concern about Iran's use, and support, of terrorism, its attempts to use the Islamic movement to subvert other governments in the region, its opposition to the Arab-Israeli peace process, its efforts to enhance its conventional military forces (including an anti-ship capability that might be used to block the flow of Persian Gulf oil), and its efforts to acquire WMD and their means of delivery.¹³ On a political level, and perhaps on a cultural level, the embassy takeover and the ensuing hostage crisis generated substantial public hostility towards Iran. These strong emotions have helped to fuel the confrontational US stance and have limited the range of available policy options.¹⁴

Iran, in turn, has its grievances. In the Iranian view, the US supported the Shah's regime, seen by many as illegitimate and anti-clerical, and was indifferent to the regime's corruption and human rights abuses. US support for Iraq in the 1980-1988 war is seen as proof of American hostility towards Iran. Near the end of the war, the US Navy conducted operations against Iranian naval forces and in July 1988 the USS Vincennes shot down an Iranian AirBus, killing 250 Iranians. From the Iranian perspective, the US has repeatedly rejected subsequent Iranian attempts at reconciliation, despite Iran using its influence and money to secure the release of Western hostages in Lebanon and Iran tacitly cooperating with coalition forces in Operations Desert Shield and Desert Storm. The US still refuses to release Iranian funds related to unsettled claims on the foreign military sales program, a dispute that Iran believes could be resolved. The Iranian leadership believes the US has tried to destabilize their economy and hinder their modernization efforts through its opposition to development loans, its trade embargo and its strict export controls on the sale of technology. Iran is also troubled by US military activity in the Gulf, to include large-scale arms transfers and security agreements.¹⁵

Iran believes that the US seeks hegemony in the Persian Gulf in order to dominate the region and its natural resources.

Iran also believes that the US uses the false pretext of threats by Iraq and Iran to justify its increased military presence in the region and its military ties with key Gulf states. "From the Iranian perspective, the de facto GCC alliance with the United States has produced an imbalance of power in the area that threatens Iran's security."¹⁶

THE EFFECTIVENESS OF US IRANIAN POLICY

Officially, the current US policy stance towards Iran is that it is not opposed to the Islamic government and seeks an "authoritative" dialogue with the Iranian leadership to discuss those aspects of the regime's behavior that are objectionable. The actions taken by the US in the economic, diplomatic and military spheres have been intended to isolate Iran and cause it to moderate its behavior by raising the cost of pursuing hostile policies.¹⁷ These actions, however, appear to have placed the US in an inflexible policy position that inhibits rather than promotes the development of an official dialogue.

How effective these US policies and actions have been is subject to debate. In the economic and political arenas, US actions have clearly imposed a price on Iran for its actions, hurting the Iranian economy by blocking its access to international capital markets, preventing it from restructuring its \$40 billion debt, forcing it to dramatically cut imports and

impeding its ability to modernize. It is also argued that US sanctions have been a cost-effective means of containing Iran, because they have reduced substantially the resources available to Iran for the purchase of military equipment, thereby reducing the cost of US military preparedness in the Persian Gulf.¹⁸

It can also be argued that US actions have helped to create a degree of broad international pressure on Iran to moderate its support of terrorist groups, its opposition of the Arab-Israeli peace process and its pursuit of WMD. European countries have generally adopted a more conciliatory policy of engagement and "critical dialogue" with Iran. However, since the US is the ultimate guarantor of Western security interests in the Persian Gulf, it seems likely that its confrontational stance has helped make the European approach more effective in influencing Iran (perhaps an unintended diplomatic variation of the classic "good cop, bad cop" interrogation technique). US economic sanctions may have contributed to some degree in fostering subsequent Iranian political disenchantment with the mullahs, primarily among the young and women.

On the other hand, the effectiveness of US economic sanctions has been limited by their generally unilateral nature, which offers Iran alternative trade opportunities. Given Iran's large size and natural wealth, especially oil and gas, it is able to endure the impact of US sanctions. The state of the

Iranian economy is probably more affected by fluctuations in the price of oil than by US economic sanctions. While Iran clearly has economic problems, one foreign policy analyst noted in July 1998 that

"The current account is in surplus, hard currency reserves are at record highs, foreign debt payments are on schedule and Iran has been successful in raising financing from Europe. Indeed, the picture was sufficiently rosy in 1997 for Supreme Leader Ayatollah Sayed Ali Khameinei, the nation's top cleric, to publicly welcome the U.S. sanctions regime as a boon to popular mobilization and self-reliance."¹⁹

This raises another aspect of US policy towards Iran: the impact of its confrontational approach on the political struggle within Iran. By making it easier for hard-line clerical leaders to demonize the US, economic sanctions may be undermining the position of more moderate political elements within Iran, and hindering their ability to establish policies more amenable to the US.²⁰ While Iran is hardly an open society in Western terms, Islamic fundamentalists no longer exercise complete political control. As fundamentalists battle moderates over the direction of Iran's future, a US policy focused on weakening the Iranian economy, regardless of its actual economic impact, " weakens the political power base of Iran's most progressive leader since 1979."²¹

There are other drawbacks to current US policy. Unilateral sanctions have strained relations with allies. For example, the Iran-Libya Sanctions Act, which penalizes foreign firms that

deal with Iran, has created tensions with Western allies (particularly the European Union) and Russia, who object to its extra-territorial provisions regarding Iran.²² Moreover, these sanctions have forced Iran to become more self-reliant and to forge commercial ties with other countries, making it less susceptible to US pressure and denying valuable business opportunities to US firms.²³ The flow of critical technologies related to WMD and missile delivery systems may have been slowed to some extent, but it does not appear to have been stopped.²⁴ In short, while US economic and political actions have forced Iran to pay a price, they seem to have run their course in terms of leverage. They have not brought the Islamic Republic to its knees, have strained relations with key allies, and may well be undermining the political forces in Iran that the US should seek to support. The US has real concerns about Iran that must be addressed, but economic sanctions do not resolve these concerns and hinder the dialogue, formal or informal, that can.²⁵

In the military sphere, the US has clearly demonstrated its combat capability and, through arms transfers and agreements, its commitment to the Gulf region and to key Arab allies. The Iranian leadership was "not only awed by the speed and ruthlessness with which American-led forces destroyed Saddam Hussein's war machine (in contrast to Iran's humiliating and costly defeat) but the fact that in the aftermath of Desert

Storm the U.S. presence remains very visible."²⁶ At present, external aggression by Iran does not seem likely and this would seem to indicate that the Gulf War and the US military posture in the Persian Gulf have had a deterrent effect on Iran.²⁷

On the other hand, many critics argue that US policy has exaggerated the military and political power of the Islamic Republic and thus the magnitude of the threat that it represents to Persian Gulf security and US interests in the region. A confrontational US posture and Iranian military weakness, in turn, encourage Iran to focus on asymmetrical methods to restore the balance, such as subversion and the use of Islamic ideology to undermine GCC governments.²⁸ Another example of asymmetrical strategy involves Iran's substantial investment in anti-ship weapons (e.g., Russian Kilo-class submarines, various types of anti-ship missiles, fast-attack boats and mines). These weapons could be used both to threaten US naval forces and to close the Strait of Hormuz to commercial shipping, a "choke point" strategy openly articulated by a senior Iranian military commander.²⁹

THE THAW IN US-IRANIAN RELATIONS

In May 1997, Sayyed Mohammed Khatami was elected President of Iran, winning 69% of the vote and attracting the largest number of voters in Iranian history. A cleric who helped

establish the Islamic government in 1979, Khatami had been forced out of a cabinet post in 1992 for being too liberal on matters of cultural tolerance and individual freedom of expression. Khatami's subsequent grass-roots campaign, focused on the rule of law, civil society and dialogue with non-Islamic ideologies, drew strong support from the Iranian population, and especially from women and young people. Khatami's election was described as a second Iranian revolution, as he drew support from advocates of reform, whose strength had been growing for several years.³⁰

Khatami immediately indicated that he would attempt to chart a new course. He replaced several hard-line cabinet ministers with competent, respected individuals and installed others who had been critics of past repression; his cabinet was approved by the Iranian legislature without change. Khatami's first speech at the United Nations, a dramatic change from previous Iranian pronouncements, stressed a "global civil society," respect for international law and a "dialogue of civilizations."³¹ Iran worked actively during 1997 to improve relations with its Arab neighbors and hosted in Teheran a successful and harmonious summit meeting of the Organization of the Islamic Conference. In a December 1997 press conference with the international media, Khatami called for a dialogue with

the US and indicated his desire to speak directly to the American public.³²

On 7 January 1998, Khatami conducted a television interview with CNN using that forum to address "the great American people."³³ He stressed the importance (and relationship) of liberty and religion, citing the American experience in this regard as a model the Islamic Revolution aspired to achieve. He came close to expressing regret for the hostage crisis, indicating that this would not happen in contemporary Iran, and denounced Iranian burning of the American flag. He did not call for direct government-to-government talks, but he did propose a series of cultural exchanges involving "professors, writers, scholars, artists, journalists and tourists."³⁴ Khatami presented significant refinements in policy in several key areas, condemning terrorism and declaring that, while opposed to the peace process because it would not succeed, Iran would not impose its views on others or stand in their way.³⁵

Khatami reiterated several Iranian grievances, such as Newt Gingrich's call for covert action to overthrow the Islamic regime and the downing of the Iranian Airbus in 1988, and was confrontational on US support for Israel. He did not offer any major changes on issues of vital interest to the US. On balance, however, it was a positive performance and "the image of a smiling, self-confident, conciliatory Iranian leader

defying his own hard-line opponents to speak directly to the American people was compelling."³⁶

Iran has sent other clear signals to the US. The Iranian clergy removed one key point of contention with the West by ending the *fatwa* (religious edict) against British author Salman Rushdie. In March 1998, Iranian officials decided to cut off the crucial aid Iran had provided to Iraqi oil smugglers, who helped Iraq circumvent United Nations economic sanctions.³⁷ In the summer of 1998, Iran sent a team to Washington in a renewed attempt to obtain World Bank funding and initiated efforts to join the World Trade Organization.³⁸ Secretary of State Albright has cited positive movement in Iran's position on the Middle East peace process, President Khatami's public denunciation of terrorism, substantial improvement in Iran's efforts to combat drugs, its treatment of Iraqi and Afghan refugees, its participation in diplomatic efforts to establish peace in Afghanistan, and its efforts to improve relations with Saudi Arabia and other Gulf states.³⁹

In short, there are clear signs of change for the better in Iran, and the emergence of President Khatami and his moderate allies is fueled by strong undercurrents. Population demographics has created an ever-widening gap between most Iranians and the revolution that has defined their country for the past two decades. More than half of Iran's population has

been born since the 1979 revolution and many others were too young to remember it. For them, the revolution has become increasingly irrelevant. In addition, there is the growing discontent that helped fuel Khatami's election. There is widespread frustration among Iranians with the state of the economy, an area where the clerics are seen as having failed. There is also a desire for greater social and political openness, and Khatami's election has made it easier for ordinary Iranians to voice their discontents on these issues.⁴⁰ Several prominent clerics, to include Ayatollah Hossein Ali Montazeri, have challenged the scope of clerical rule in Iran.⁴¹

While these underlying trends appear to have considerable "staying power," it is far from certain that the moderates in Iran will prevail. As Secretary Albright has pointed out, in Iran "the presidency typically has not controlled national security policy, nor critical Iranian institutions like the military, the police, the security and intelligence services, and the Revolutionary Guards." The hard-line elements see Khatami, and the trends he represents, as a threat. Their reaction has been reflected in acts of violence, such as the assassination of five dissident writers subsequently linked to "rogue" intelligence agents,⁴² attacks on Khatami allies like Gholam-Hossein Karbaschi, the mayor of Teheran, and the arrest of Ayatollah Montazeri on charges of treason.⁴³ The battle is

far from over, however. Iran's intelligence minister recently resigned, accepting the blame for the "irresponsible, misguided and unruly" agents who carried out the assassinations,⁴⁴ and an investigating committee has reported to Khatami that more suspects have been charged in these deaths.⁴⁵

The US responded to these positive signs of change in Iran with words of cautious conciliation. On 29 May 1997, President Clinton stated that "I have never been pleased about the estrangement between the people of the United States and the people of Iran. And they are a very great people, and I hope that the estrangement can be bridged."⁴⁶ In July 1997, the State Department indicated that it did not regard a proposed gas pipeline across Iran, connecting Turkmenistan and Turkey, to be a violation of US sanctions, as it did not involve the purchase of Iranian gas (a position inconsistent with US policy and statements on the transport of Azerbaijani oil). In addition, the US modified the list of terrorist organizations prohibited from operating in the US to add the *mojahedin-e khalq*, a group operating out of Iraq and Turkey that claims credit for hundreds of terrorist attacks and assassinations against the Islamic Republic. The US government has toned down its public statements to reduce the level of rhetoric and inflammatory statements about Iran, discarding its "special vocabulary in which Iran was routinely branded as a 'rogue', 'terrorist',

'outlaw' or 'backlash' state"⁴⁷) and has taken steps to avoid provocation and military confrontation. In December 1998, President Clinton removed Iran from the list of major drug-producing countries, indicating that it had virtually eliminated opium poppy cultivation (prompting Republican charges that there was no convincing evidence for this assertion).⁴⁸ Finally, the US has indicated that it will re-examine its restrictive visa provisions⁴⁹ and has announced that it will conduct a review of its policy of unilateral sanctions against Iran.⁵⁰ There are numerous other possible steps the US could take to promote further improvement in its relations with Iran. There is ample reason for the US to be cautious, however, given the uncertain outcome of the current political struggle in Iran and the major issues that exist between the two countries.

MAJOR ISSUES BETWEEN THE US AND IRAN

Progress on improving relations between the US and Iran will depend in large part on the ability of the two countries to resolve their differences in those areas where Iranian policies and actions threaten US interests. Results to date are mixed, with positive movement on some issues and little change or uncertainty on others.

1. Iranian opposition to the Arab-Israeli peace talks. As indicated above, Iran's declared position on the peace process

has evolved considerably since its hard-line position of the 1980s. Iran has moderated its policy, indicating that while it still opposes the peace process as one-sided, unfair and unlikely to succeed, it will not attempt to disrupt or interfere with the process, will accept any agreement that the Palestinians find acceptable, and will participate if the rights of the Palestinians are respected. Whether recent Iranian statements on this issue represent a real change in view or amount to nothing more than tactical posturing will only be determined over time and perhaps only when diplomacy produces a final Arab-Israeli peace agreement.⁵¹

2. Terrorism and subversion. These areas are difficult to assess, given their inherent covert nature. Iran has been accused of involvement in various incidents, including the Riyadh bombing of November 1995, the Dhahran bombing of 1996, the attempted assassination of Egyptian President Mubarek in June 1995, and the rebellion in Bahrain. Iran has denied involvement in these incidents, but it has invited the accusations by posing as the radical exporter of the Islamic Revolution. Still, it seems clear that the level of direct Iranian involvement in terrorism and subversion has decreased significantly in recent years, whether because of the impact on Iran's international reputation, the need to avoid provoking an American military response, or some other reason.⁵² Ultimately, however, a

resumption of asymmetrical methods like terrorism and subversion could be a logical Iranian response to, and an unintended consequence of, an overly confrontational US posture.⁵³

It is also important to distinguish between actions taken to attack or intimidate other nations or to silence criticism or dissent from actions taken to respond to terrorist attacks. Iran continues to attack elements of the *mojahedin-e khalq* in northern Iraq and, to a lesser extent, in Turkey. In this regard, Iran's posture is similar to the Israel's response to terrorist attacks, except that Iran has suffered far more from such attacks (the *mojahedin-e khalq* claimed 294 attacks against Iran in the first nine months of 1997).⁵⁴ Since Iran, like Israel, sees its actions as necessary for national security, it is unlikely to be dissuaded by US economic sanctions or military presence, and it is probably unrealistic to expect Iran to renounce its right to respond.

3. Iran's conventional military buildup. Iran's efforts to enhance its conventional military capability are a cause for concern, particularly its purchases of military equipment related to ship-sinking/sea-denial capability.⁵⁵ When seen from Iran's perspective, however, they do not appear unreasonable. To some extent, Iran is still attempting to replace its military losses from the Iran-Iraq war. More important, Iran's political-military environment can fairly be described as

precarious. In addition to the presence of superior US military forces in the Gulf Region and US agreements with key Arab states, Iran faces regional threats, or potential threats, on virtually every border. Saddam Hussein's Iraq lies to the east, a Taliban-controlled Afghanistan (with ties to Pakistan) lies to the west, and the possibilities of unrest among former Soviet states and the resurgence of a nationalist Russia lie to the north.⁵⁶

4. Weapons of mass destruction. Iranian pursuit of WMD and missile delivery systems with ranges of 1500-2500 kilometers are a major cause of concern for the US, its key Arab allies and Israel.⁵⁷ Iranian officials have denied that they seek to develop nuclear weapons and have opened their facilities to inspection (e.g., by the International Atomic Energy Agency).⁵⁸ While the US can attempt to impede the transfer of WMD technologies and materials, if Iran is determined to acquire WMD, there is ultimately little the US can do to prevent it. Moreover, there is a clear element of hypocrisy for the US, with the world's largest nuclear arsenal, to argue that Iran should forego nuclear weapons. Iran would have some justification for pursuing WMD, given its conventional military weakness and its geo-strategic situation, which includes one enemy with a fully-developed nuclear capability (Israel), another that has used chemical weapons against Iran and is attempting to reestablish

its WMD capability (Iraq), the emerging nuclear capabilities of India and Pakistan, and the possible re-emergence of a more nationalist and expansionist Russia.

Even if Iran does stop short of deploying WMD, it could continue to develop the enabling technologies and infrastructure, in order to be in position to deploy weapons quickly, if needed. The US can work within the non-proliferation structure to dissuade Iran, but ultimately, it must face the prospect of an Iran armed with WMD and must rely on US nuclear superiority and deterrence as a primary line of defense (deployment of the recently-announced national missile defense system is uncertain at best, while theater ballistic missile defense efforts must overcome substantial technical difficulties before they can protect US forces in the Persian Gulf).⁵⁹

PROSPECTS FOR NORMALIZATION

While the US must continue to articulate its concerns on these issues and assert its vital national interests in the Persian Gulf region, the current US approach toward Iran has clear and significant limitations. In the US, Many leading foreign policy experts, including Zbigniew Brzezinski, Brent Scowcroft and Richard Murphy, have called for a change in US policy toward Iran.⁶⁰

To some extent, addressing the conflict between the US and Iran will require recognizing and dealing effectively with the substantial cultural differences between the two countries. For example, to the US and the Western world in general, Iran's efforts to "export the Islamic revolution" seem like a threat to undermine the governments of key Persian Gulf allies. To the ruling clergy, the Islamic Republic is "obligated to make Islamic ideology and the divine message manifest to audiences all over the world."⁶¹ As a result "what one party considers a religious missionary activity is regarded by the other as political subversion. U.S. opposition to Iran is viewed, therefore, in religious terms, and the U.S. becomes the "great Satan."⁶²

Another factor in assessing the prospects for normalization is a recurring pattern of US relations with non-democratic and ideologically hostile revolutionary states. The US government and the American public tend to relate to such regimes more in moral terms than on the normal basis of pragmatism and merit. Generally reluctant to take on such regimes militarily, the US has been quick to engage in economic warfare, imposing economic sanctions against 35 countries in the period from 1993 to 1996. Once imposed, sanctions are not lifted unless the regime threatens vital US interests (Soviet Union), shares a common threat with the US (Chinese and US fears of the Soviet Union),

or denounces its previous views and embraces democracy and capitalism (various former communist countries). While Iran does not fall cleanly into any one of these three categories, it does reflect a little of each: its WMD potential makes it more dangerous, its opposition to Iraq is shared with the US, and it has toned down its rhetoric since Khatami's election. "So, within a fairly short period, Iran has seemed to grow more dangerous, more useful as a tactical ally against the phoenix-like menace of Iraq, and less ideologically disagreeable."⁶³

The threat posed by Iraq raises another important factor in assessing the prospects for normalization between the US and Iran -- the existence of common interests. In addition to their mutual interest in containing Iraq, the US and Iran have cooperated in the UN-sponsored effort to end the war in Taliban-controlled Afghanistan. While Iran is suspicious of US ties to Pakistan, both countries have a interest in avoiding conflict between the two nuclear powers on the Indian sub-continent. There are other potential common interests. Both countries would find their national interests threatened by a resurgent, nationalist Russia, determined to regain control of its non-Russian former republics and their substantial oil reserves. An Islamic revolution in Saudi Arabia, resulting in a Sunni fundamentalist regime, could threaten both Western access to oil

and Iran's standing in the Islamic revolutionary movement (and possibly inspire the 15% Sunni minority within Iran).⁶⁴

The lack of formal diplomatic relations with Iran no longer serves a useful purpose and appears to be counter-productive. Breaking diplomatic relations can be a useful way to send a strong signal, but the value of that signal can decline over time. This appears to be the case with Iran. The US penchant for not recognizing revolutionary regimes (e.g., Cuba and the People's Republic of China) can be counterproductive and even dangerous. During the Korean War, for example, the lack of formal diplomatic relations between the US and the People's Republic of China may have contributed significantly to Chinese miscommunication and US miscalculation that resulted in China's entry into the war.⁶⁵ Even during the height of the Cold War, the US maintained its diplomatic relations with the Soviet Union, in large part because the risks of misunderstanding were simply too high to do otherwise. In an era of well-organized terrorist activity with a worldwide reach and the proliferation of WMD and ballistic missile technology, mistakes due to miscommunication and misunderstanding can be catastrophic.

POSSIBLE US STEPS TOWARDS NORMALIZATION

As indicated, the current political struggle within Iran argues for a degree of caution in US policy. Dramatic US moves,

such as the immediate lifting of all economic sanctions, may be unrealistic politically and legally, due to strong Republican opposition and the existing web of statutory controls. However, moderate political elements in Iran continue to show strength, as reflected in their sweeping success in recent local elections. In addition, President Clinton has substantial decision-making discretion with Executive Orders and the waiver provisions allowed by various laws and, in the last two years of his second term, a certain degree of political flexibility. Clearly, there are a range of possible actions, to include a significant relaxing of sanctions, that the US could take to improve relations and foster progress towards normalization.

For example:

- Iranian hard-liners use their opposition to the "Great Satan" to legitimize their authority⁶⁶ and draw attention away from their domestic economic failures.⁶⁷ The US could undermine their ability to do this by continuing to avoid harsh rhetoric and provocative actions, relaxing economic sanctions, making other positive gestures wherever possible, and working to ease tensions.
- In a similar vein, the US could act to strengthen the position of moderate political elements in Iran. The US could bolster President Khatami and the moderate elements in Iran and provide them with some tangible "successes"

(such as the elimination of selected sanctions) for their more conciliatory approach to the West.

- The US could pursue, and respond to offers of, informal cultural contacts and could use these contacts and other informal channels to convey its desire for improved relations.
- The US could reduce the number and scope of military exercises in the Persian Gulf region and, as a "good faith" gesture, could initiate a unilateral practice of informally providing Iran with prior notification on their purpose and scope.
- The US could work with Iran (informally or through third parties) to develop an "incidents-at-sea" agreement and other kinds of confidence-building measures. Ultimately, this could also include discussions involving reducing military forces and/or constraining their deployment, along the lines of like the Conventional Forces in Europe effort with the Soviet Union.⁶⁸
- The US has announced that it will conduct a review of its unilateral policy of sanctions against Iran. Through this review process, the US could modify its punitive approach by incorporating incentives for change in Iranian policy and behavior and using these as leverage in future

negotiations with Iran.⁶⁹ Incentives could include reducing or eliminating US opposition in such areas as development loans from international financial institutions, various oil and gas deals, and proposals for pipelines that transit Iran.

- The US could consider placing an American consular official in the Swiss embassy in Teheran and permit (and encourage) Iran to do the same at the Swiss embassy on Washington.⁷⁰
- If the moderate elements in Iran prevail and some form of diplomatic relationship can be established, the US could offer Iran further incentives, such as the lifting of economic sanctions, the export of US oil and gas technology⁷¹ or a nuclear deal along the lines of North Korea (i.e., offering support for nuclear power technology, perhaps with Japanese financing, in return for an Iranian renunciation of nuclear weapons).⁷²

CONCLUSION

The political and social changes now apparent in Iran may well offer the possibility of improved bilateral relations, and the US should do what it can to influence the outcome of the current struggle. Even if the more moderate elements in Iran ultimately prevail, however, normal diplomatic relations will not be achieved quickly. The US must be prepared for a steady,

long-term effort to constrain and influence Iranian policies and behaviors, responding to actions that are hostile to US interests while seeking to improve the overall relationship. Obstacles to progress include real differences in national interests, intransigence on key issues, and mutual distrust and hostility resulting from past grievances, perceived threats and cultural differences. There are a host of US legislative and regulatory restrictions that have, to some extent, taken on a life of their own. Finally, there is a domestic political dynamic in each country that involve demonizing the other, which hinders rational policy debate and constrains policy options.

Moreover, progress in US-Iranian relations, even to the extent of re-establishing formal diplomatic relations, will not mean an end to conflict with Iran. Improved relations and some forms of conflict can and probably would continue to exist simultaneously, in much the same way the US pursued détente with the Soviet Union despite differences that involved vital US interests.

US actions have served to deter Iran in some ways, but other factors -- oil prices, geography and demographics -- have probably affected Iran more. In any event, the breaking of diplomatic relations and the imposition of economic sanctions have outlived their usefulness. The question now is how to manage the move back towards a more normal diplomatic and

economic relationship with Iran. The US has an opportunity to lend support to the more moderate political elements in Iran and begin the slow process of re-building ties with this key Middle East nation. Over the long run, Iranian policies and actions can best be moderated by fully re-integrating Iran into international economic and political structures, in ways that address its legitimate national security concerns and allow it to profit from international trade and cooperation. Ultimately, the ability of the US and Iran to resume normal diplomatic relations and constructively address their differences will depend heavily on mutual recognition of common interests, developments in Iran's on-going political struggle, and the ability of the US to respond in rationally to positive Iranian gestures, actions and shifts in policy.

Word count: 7,873

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